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Editorial

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The JOURNAL of ACCOUNTANCY

Official Organ of the AMERICAN INSTITUTE OF ACCOUNTANTS

A. P. RICHARDSON, *Editor*

EDITORIAL

Twenty-fifth Year of Publication

In November, 1905, the first issue of THE JOURNAL OF ACCOUNTANCY was published under the auspices of the American Association of Public Accountants. In November, 1929, therefore, the magazine enters upon its twenty-fifth year of continuous publication. Today, THE JOURNAL is owned by the American Institute of Accountants, successor to the American Association of Public Accountants, and is published by a subsidiary publishing company. At the end of the twenty-fifth year it will be of interest to review the accomplishments of the profession during what will doubtless prove to have been the most important quarter-century in the history of the profession in this country, for it is the period during which the profession has advanced most rapidly toward its proper position in public estimation. At the moment it is of interest to consider the continuity of publication of this magazine. Nowadays magazines come, and a good many of them go. Those that have a real purpose to serve abide, at least for a time, and we believe it may be regarded as proof positive of the enduring usefulness of THE JOURNAL that it has continued without intermission through all these years—its business under various forms of control but its policy always to stimulate the advancement of the profession under direction of the national organization. Every magazine publisher is aware of the great changes which have taken place, especially during the past ten years, in the habits of the public. Radio and the automobile are said to have done more to reduce reading than any other two factors in modern history. Today the tired business man and his equally tired wife and family find the evening a time for listening to the outpourings of a dozen radio stations, or, if the weather be fine, the evening is spent touring the countryside. Magazines are not read as they were in the last generation. Some of the oldest and best loved have passed out of existence and

others are reducing the number of their issues. All sorts of devices are employed to maintain circulation by encouraging present subscribers to continue or by bringing in new ones. Gifts, which are usually described as premiums, are offered to encourage subscription, and special prices are quite the order of the day. Through all this period of transition THE JOURNAL OF ACCOUNTANCY has pursued the even tenor of its way, has never offered any special inducement to subscription (except a slightly reduced rate to college students, which was established for the purpose of making the subscription easier for men and women who had not yet reached full earning capacity), and it has been the fixed policy of the magazine to make its circulation figures always absolutely truthful and frank. Today the circulation is a cause for considerable gratification, for, while there has been a decline at times, the actual average, paid circulation remains on a fairly constant level. Various methods of increasing apparent circulation, such as carrying subscriptions beyond their termination, have never met with favor in the business offices of this magazine. These comments upon the progress and policy of the magazine are made for the purpose of demonstrating that a technical magazine can survive without adventitious aid. It may be added with a spirit of pardonable pride that throughout the time of THE JOURNAL'S publication under the auspices of the Institute it has brought in a fair amount of profit to the organization. During the fiscal year of the Institute which ended August 31st The Journal of Accountancy, Incorporated, reported an operating profit more than twice that of the preceding fiscal year.

An International Congress on Accounting

During the week beginning September 9th a "congress on accounting" was held in New York. The men and women attending the congress were, naturally, chiefly from the United States, but there was a fairly representative number of visitors from European and other foreign countries. The sessions were well attended and the various entertainment features seemed to meet with cordial favor. The congress was not conducted by any organized body of accountants but several organizations, among them the American Institute of Accountants, were represented on the executive committee. The persons present were not all professional practitioners. There were many cost accountants and representatives of schools of commerce and

the like, but the subjects discussed were of interest to all to whom the word accounting has significance. The congress was really the third international gathering of its kind. The first was held at St. Louis at the time of the World's Fair in 1904. The second was held at Amsterdam in 1926. An effort is to be made to assure the repetition of international gatherings in the future. Probably the actual benefits of these gatherings are largely social, but it seems inevitable that from a meeting of men engaged in similar vocations throughout the world there must arise much good to the entire accounting field. Some important and valuable papers were presented and discussed. Their number precludes reproduction in full, but the report of the proceedings is to be published in book form and will doubtless constitute a noteworthy addition to the literature of accountancy.

Institute's Annual Meeting

Partly as a result of the international congress on accounting and partly because of the constantly increasing fellowship between professional practitioners in the English-speaking countries, the annual meeting of the American Institute of Accountants, which occurred in the week beginning September 15th, was attended by more representatives from other lands than ever before. Most of the Canadian and British societies were represented by several members and many of them took an active interest in the discussions. The meeting was altogether delightful and helpful. The papers, some of which appear elsewhere in this issue of *THE JOURNAL OF ACCOUNTANCY*, dealt with timely topics. The meetings were characterized by the utmost enthusiasm.

Trend Toward Business Mergers

Newspapers and magazines throughout the country are discussing the growing tendency toward amalgamation of business enterprises. In the last decades of the nineteenth century there was a strong trend toward the creation of trusts. A trust was supposed to be a group of businesses under one head and maintaining a monopoly of the production of some article or class of service. The famous Sherman anti-trust act of July 2, 1890, was intended to prevent the over-centralization of business control and to protect the public from the extortions which monopolies may exact. The country passed then into a period of busi-

ness individualism and anything which savoured of a large combination was looked at askance. People feared the penalties of the Sherman act, and for a time public sentiment demanded rigid abstinence from amalgamation. But in the present century, and especially since the war, there has been a reaction and today we are running fast toward a condition of centralization which will far exceed the most highly organized efforts of forty years ago. Following the war came enormous increases in the scale of wages paid to labor; the cost of commodities required in manufacturing or in merchandising advanced with startling rapidity; and it became necessary to effect economies wherever possible. The most assailable element of expense seemed to be in management and other overhead, and the simplest way for a business to reduce cost of production appeared to be by letting one overhead cost do the work of two or more. In other words, there was an almost universal effort to consolidate for the purpose of eliminating executive and similar expenses. The result of this tendency was a substantial increase in the ratio of profit in most cases and, consequently, businesses in which mergers had not taken place began to regard with favor consolidation in their own fields. Public utilities have been grouped so rapidly and enormously that the public is hardly aware yet of the extent to which a few corporations practically control the power, fuel and light supply of the country. In some great basic industries such as transportation, the only brake upon the progress of consolidation has been the interference of regulatory commissions, but the tendency can not be checked until it has been demonstrated to be unsound. So far the movement toward mergers has been accelerated month by month.

**Accountants Seriously
Affected by Mergers**

Now all this is of immense importance to the practising accountant because, when any two companies become one company, two audits become one audit—and the great bulk of professional service rendered by the accountant is in the arena of audit. In many cases mergers have absorbed scores of separate entities and the effect has been almost disastrous to many accounting practitioners. At least that is the way some members of the profession describe the existing conditions. And it is undoubtedly true that the present trend toward amalgamation of business has borne very heavily upon members of the accounting

profession, but the so-called small practitioner is not the only one who suffers. Many of the largest firms have lost important clients whose business has been taken into some vast consolidation. The large firms, however, are usually better able to bear the loss of a client or a dozen clients than a man whose practice is comparatively small, and we may take it, therefore, that the adverse effect of mergers is more keenly felt by the individual practitioner or the moderately small firm.

**Accountants' Opinions
on the Subject**

This is a subject upon which there is, of course, great difference of opinion and it would be eminently desirable if there could be an open discussion of the whole question from every point of view. In such a discussion there should be ample opportunity for the presentation of the views of the large firm and the small. It is quite possible that some accountant who has lost a dozen desirable clients because of the present trend of business will regard with a certain amount of skepticism any profession of regret on the part of the large firm which has benefited by the diversion of an audit engagement. It must be remembered, however, that much of the loss in the volume of professional engagements is an absolute loss to the profession as a whole. Many mergers which have taken place have not simply transferred the volume of accounting service from one firm to another. They have actually reduced the volume. At a recent meeting of the New England region of the American Institute of Accountants and the Massachusetts Society of Certified Public Accountants, George O. May, senior partner of one of the largest firms, discussed the question of mergers and it is desirable to quote his remarks on this subject. Probably his opinions may be regarded as fairly reflecting the views of many of the more prominent accounting firms. He said in part:

"There is one tendency in modern corporation development that I would like to speak on especially—that is the tendency toward mergers and consolidations throughout the country. I suppose it is an economic development that can hardly be arrested, but it brings in its train a great many unfortunate consequences, as I suppose is true of all important economic changes.

"I can not view without regret the elimination of so many independent business men throughout the country or their being forced to choose between accepting the position of salaried employees and being forced out of business altogether, though this is an inevitable incident of this development.

"Another thing that I view with regret is the displacement of local auditors of these smaller concerns and their replacement by firms which

enjoy a national reputation. The relations between the national firms and the local firms have always seemed to be a question of very real importance to the profession. I have never regarded their positions as at all antagonistic. In the past, undoubtedly a certain amount of work of the local accountants has passed in the natural development of business to the national firms, but I have felt that that was far more than compensated for by the general development of accounting throughout the country, which could not have been accomplished without the national firms, and I still feel that the national firms ought to be an asset to the local firms.

"I do not think that the national firms any more than the local firms can prevent the operation of an economic force such as I have referred to. I know—speaking for my own firm—we have tried at times to do it but unsuccessfully. We have never wished to grow at the expense of the local accountants. We have encouraged our clients more than once to retain the local accountants where we felt there was reason to believe that the local accountant could render all the service that was required, but I know that, nevertheless, we and other national firms must have taken a very considerable business from local accounting firms and that the loss of that business to the local accounting firms has been far more important to them than its gain has been to us. Now, what can we do to compensate? The one thing above all that I think we should do is that every national firm should maintain a standard commensurate with its position—I fear that there are some national firms that do not, either in the ethics of getting business or in the ethics of doing business. I think it is the duty of the big firms to fight the battles for the whole profession. They can do it at much less relative cost. In order to fight these battles of principle, one has to be prepared to lose connections which carry remunerative fees or prestige that is valuable in itself. If the small firm loses an important audit, it means a substantial share of its total business—a big firm can lose a number without really feeling it. And that is why I feel that the first and foremost duty of the national firms is to take the strongest possible stand on questions of ethics and on questions of principle, and in both these fields to fight the battle of the whole profession. Now, I don't think that we are all doing it, but I think we ought to do it and I am glad of an opportunity to express myself very plainly on the subject.

"I sympathize very heartily with the local firms, which are doing good work in a professional spirit, but complain that the national firms are not always maintaining the standards of either accounting principles or ethics that they advocate and seek to impose on the profession as a whole.

"There is no doubt that there is room for both national firms and local firms in the profession and I don't think if the two work together properly that anything essentially antagonistic in their positions can develop. That it is possible to make a great success without having a national organization is obvious. I happen to be in the position of having on each side of me a man who has accomplished just that. And what they have done, others can do."

These are the opinions of a member of a large firm of accountants whose practice spreads into every part of the country and into many foreign countries. It would doubtless be of interest to many readers of this magazine if some individual practitioners—those who have suffered most from the effects of mergers—would express themselves with equal frankness on the present trend toward mergers. We invite comment of this kind and trust that it will be forthcoming and will be on a plane of high professional thought. Personal feelings may influence the

writers' thoughts but should not influence their writings. There is no more important question which can engage the attention of an accountant.

**Accountants and Legal
Knowledge**

THE JOURNAL OF ACCOUNTANCY receives a good many letters in the course of a year asking for advice as to the desirability of a knowledge of law by accountants. Most of the correspondents are young men who have acquired a certain amount of knowledge of accounting, especially theory, and are anxious to increase their usefulness and possible earning power by the acquisition of other kinds of knowledge which may add to their general value. The old axiom that one can not know too much about anything is not universally accepted today. There are many things which one may know without increasing his usefulness or happiness, and there is often danger that the man who seeks to know much about everything will know little about anything; but it may be said that as a rule a knowledge of law is of real value to a practising public accountant. So, too, is a knowledge of economics, mathematics and statistics. Law is desirable as a supplement to accounting knowledge. An accountant should know enough about law to know when a lawyer should be called in, but he need not be proficient in all branches of legal knowledge. It is generally believed in the profession that to be a good accountant is a job big enough for one man. To the practitioner who would make professional accountancy his life work we should say that his first duty would be the acquisition of a broad, comprehensive knowledge of accountancy. This does not mean that a study of law will not be exceedingly helpful. Papers on commercial law are included in almost all accountancy examinations. Many accountants are members of the bar, but we do not believe that there are many men who can be both good lawyers and good accountants. Either profession is sufficient to occupy the mental energies of an ordinary citizen. It would be our opinion that the man who expects to enter the profession of accountancy should first devote his attention to a study of accountancy and then to law or other subjects which may be collateral to the practice of his chosen profession. Furthermore, one who would be an accountant primarily need not enter into all branches of legal study but should limit his attention to those departments of law which relate to commerce, finance and industry.